

## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



A280.29  
F22Fc  
Cop. 2

FCS EDUCATIONAL CIRCULAR 16

U. S. DEPT. OF AGRICULTURE  
NATIONAL AGRICULTURAL LIBRARY

APR 28 1966

CURRENT SERIAL RECORDS

# USING YOUR RURAL CREDIT UNION

FARMER COOPERATIVE SERVICE

U.S. DEPARTMENT OF AGRICULTURE

**T**HE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

|  |  |
|--|--|
| <p>FCS Educational Circular 16</p> <p>Revised March 1966</p> | <p><b>Joseph G. Knapp, Administrator</b><br/><b>Farmer Cooperative Service</b><br/><b>U.S. Department of Agriculture</b></p> |
|--|--|

**Contents**

|   |  |
|---|--|
| 1 | <b>How your credit union operates</b>                                  |
| 1 | <b>Members</b>   |
| 2 | <b>Officers and committees</b>   |
| 3 | <b>How your credit union helps you save</b>                            |
| 4 | <b>Savings incentives</b>  |
| 4 | <b>Protection</b>  |
| 5 | <b>How your credit union helps you borrow</b>                          |
| 6 | <b>Why rural people borrow</b>   |
| 6 | <b>How loans are made</b>  |
| 7 | <b>How your credit union benefits you and</b><br><b>your community</b> |
| 8 | <b>Community</b>   |
| 8 | <b>Members</b>   |
| 8 | <b>How your credit union gets organized</b>                            |

# Using Your Rural Credit Union

William F. Woods  
Farm Services Branch  
Purchasing Division

**I**N a number of rural communities throughout the United States, farmers and other rural residents have organized credit unions to help meet their financial needs.

Credit unions are chartered by either State or Federal Government. The credit union then continues to be examined and supervised by its chartering agency.

Rural credit unions are cooperative savings and lending institutions with added features. They are organized and operated by and for the mutual benefit of their members. Their basic and guiding principle

is an old and established one: The democratic ideal of mutual self-help.

Primary objectives of rural credit unions are threefold:

1. To promote thrift among members by encouraging them to save and build cash reserves.

2. To provide an adequate and dependable source of credit for credit union members who need to borrow.

3. To provide a means of educating their members in the management and wise use of their financial resources.

## How Your Credit Union Operates

**A** rural credit union's rules for operation—what it can and cannot do—are outlined in the credit union's charter and bylaws, and in either the Federal Credit Union Act or a State credit union act. It is controlled by its members.

### Members

Credit union charters are issued only to groups of people who share a common interest or bond. Your group's common bond, for example, may be:

1. *Membership.*—In a farmer cooperative, rural church, or farm organization;

2. *Employment.*—In one place or by one organization; or

3. *Residence.*—In a clearly defined area—usually a rural community, county, or trading area.

Specific requirements for membership are spelled out in your credit union bylaws. Ordinarily every new member pays an initial membership fee of 25 cents and buys or pledges to purchase one or more shares in the credit union. Each share usually costs \$5. Only bona fide members are eligible to use credit union savings and lending services.

Although your rural credit union is owned and operated by its local members it is actually a part of a much larger movement. Most credit unions find it to their advantage to join their State credit union league. These leagues have been organized in all States except Alaska and Nevada and provide educational, organizational, technical, and other services to local credit unions. CUNA International (formerly called Credit Union National Association), Madison, Wis., provides additional services on a much broader basis.

### Officers and Committees

Naturally, not all the members of your rural credit union can participate in its day-to-day management. You must elect officials to carry on such business. These officials are responsible to all the members for the management of your business.

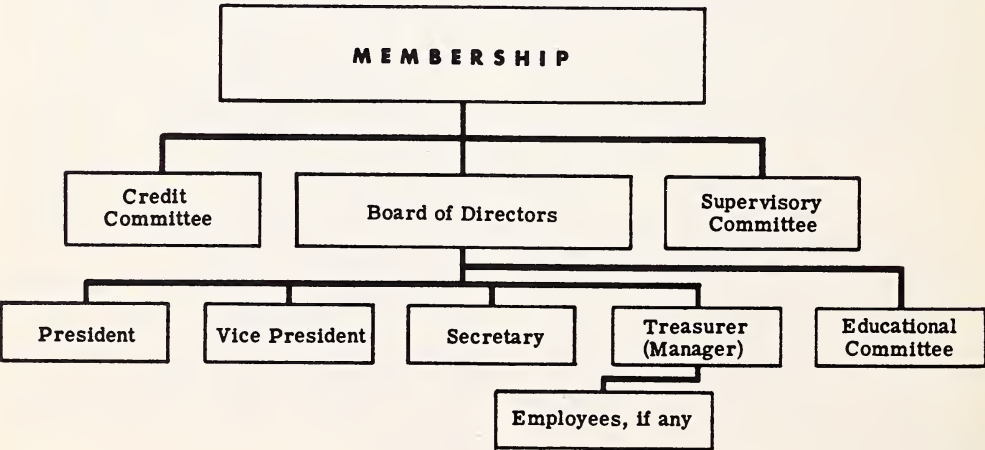
You and the other members elect from your membership a board of directors to administer the program of your credit union and a credit committee to approve member loans.

The directors choose the executive officers from among their own group. The president, vice president, and secretary perform the usual duties associated with these offices while the treasurer usually acts as the general manager of the credit union.

The treasurer is a key figure in any credit union as its principal financial officer as well as its general manager. He is responsible for all its resources, for transactions with members, and for bookkeeping and financial reports. Of all the credit union's officers, directors, and committeemen, he is the only one who may receive a salary for his work as manager.

As required by law, all credit unions must have a supervisory committee to conduct internal audits and supervise the credit union's operations. In federally chartered credit unions the board of directors appoints the members of this committee. State laws vary in this respect. In some States the board appoints the members. In other States the membership as a whole elects them.

**Fig. 1: Credit Union Organizational Chart**





Rural credit unions mobilize local savings and help members finance equipment, feed, seed, and fertilizer.

The board also may appoint an educational committee to help keep members and potential members informed on all phases of credit union activity.

Organizational structure of a credit union is outlined in the chart (fig. 1) on page 2. You will see that basic control rests in the members themselves.

## How Your Credit Union Helps You Save

**S**YSTEMATIC savings are the very heart of the credit union. Many discussions of credit union activities focus most of the attention on lending, but the importance of savings and the habit of thrift are paramount in the success of the credit union movement. Funds to support credit union lending come primarily from money saved and deposited by members.

Rural credit unions encourage their members to save regularly, even if in very small amounts. If you cannot conveniently come to the credit union office in person, you may mail in your savings.

Many credit unions' members save through deductions of various types. If you are employed and receive a salary, you may wish to authorize a regular deduction from your paycheck and have this amount deposited in your account at the credit union.

If you are a dairy farmer, you can arrange a deduction from your regular milk check for deposit in your credit union savings account.

Other farmer members may save by the bushel or by the pound—by depositing the receipts from a load of wheat or the sale of a steer—or by similar methods.

Credit unions use various devices to encourage member savings. They distribute coin banks, conduct contests, and solicit through mail campaigns, to mention a few. They use many techniques but design them to mobilize the financial resources of the membership for their own benefit.

### Savings Incentives

Your savings are in the form of shares in the credit union. These shares, usually in \$5 units, represent ownership of a part of the credit union. As a rural credit union member you receive dividends on your savings or shares. Dividends are paid out of money the credit union has earned by lending

the money you and your fellow members have deposited. They are paid ordinarily once or twice a year at a rate established by the board of directors.

### Protection

Past experience has established credit unions as safe places to save. Credit union losses nationally average less than one-tenth of 1 percent a year. Many credit unions have never suffered an operating loss.

These good safety records are due in part to strict legal limitations on credit union operations. Individual credit union bylaws also set forth specific requirements for granting loans and for handling member savings. As an additional

Rural credit unions help members finance farm supply purchases such as this cooperative brand fertilizer.





Authorized milk check deductions help dairy farmers accumulate savings and repay loans.

safeguard, both the credit union's supervisory committee and the chartering agency conduct regular, careful audits.

Your credit union probably provides a group insurance plan on member shares.

Under this plan your life is insured at no direct cost to you for an amount equal to your share balance up to \$2,000 maximum limitation. Most rural credit unions provide this extra service to their members to encourage thrift.

## How Your Credit Union Helps You Borrow

ONE major reason for starting a rural credit union is to provide a reservoir of available capital for members who need to borrow money, particularly to serve as a source of short-term credit.

Your rural credit union cannot be expected to supply all the needed credit in your community or even a major part of it. But by encouraging the accumulation and use of

local funds, it does reinforce and supplement the programs of other traditional rural lending agencies. It helps eliminate the need for members to use relatively high cost installment credit and the service of other high interest rate lenders.

Legally, credit unions may make loans for any "provident or productive purpose." This provides the flexibility necessary for your credit



Rural credit union loans help young people such as these Future Farmers of America members get a start in farming.

committee to work out a lending program to fit the members' needs.

If your credit union is newly organized, it will probably be advisable to take care of small loans first so that available funds can reach out to help more members. As soon as the credit union builds up sufficient operating capital, this ceases to be a problem.

### Why Rural People Borrow

Members of rural credit unions borrow for four major purposes:

(1) Farm production supplies and operating expenses; (2) farm machinery, equipment, and livestock; (3) land and capital improvements; and (4) consumer goods, supplies, and services.

A Farmer Cooperative Service study of rural credit unions in the Midwest in 1961 indicated that approximately 40 percent of rural credit union loans were for operating expenses, farm production supplies, and livestock. Thirty-six percent of the loans were for consumer items such as appliances, automobiles, medical care, education, and other purposes. Eighteen percent were for farm machinery and equipment, and 6 percent for real estate loans.

### How Loans Are Made

To borrow from your credit union, you fill out a loan application, giving pertinent facts—how much you need, for what

purpose, how and when you can repay, security offered, and any other data. You may wish to discuss the details of your loan application with the credit union treasurer (manager). Some larger rural credit unions may have credit counsellors.

Every loan application is considered by the credit committee. When yours is approved, it is turned over to the treasurer who handles the remainder of the transaction.

You repay your credit loan according to a definite schedule. Payments may be made monthly, quarterly, annually, or on some other basis that may be more suited to your needs. A dairy farmer may arrange to repay his loan on a monthly basis through authorized milk check deductions. A crop farmer may find it easier to schedule his payments when his crops are sold.

Your credit union board of directors determines the rate of interest you pay on your loan. The maximum legal rate is 1 percent a month on the unpaid balance. However, the actual cost of your loan may be less, depending upon the type of loan, type of security and terms of repayment.

Some rural credit unions make patronage refunds to borrowers on interest paid during the year. This represents a return to borrowers of any interest income over the amount necessary to cover normal operating costs, to provide for reserves, and to

pay dividends on member savings. Credit unions stress that they operate not for profit, but for service.

Without requiring security, Federal credit unions may lend up to a legal maximum of \$750 (amounts vary according to State laws), but the individual credit union may set its own limit at an amount less than the legal maximum depending upon its particular financial situation. Unsecured loans are called "signature loans" or "character loans."

For larger loans, credit unions ask for the same type of collateral as security as any other type of lending institution requires for loans.

Most rural credit unions carry group life insurance on member-borrowers. When you borrow from the credit union, your life is automatically insured for the unpaid balance of your loan, up to a maximum of \$10,000. If you should die or become totally disabled, the insurance repays your loan.

You may wish to borrow from your credit union even though you have funds in your savings account. Some credit unions encourage this, suggesting that you use your savings as collateral for a loan instead of withdrawing all your funds. This is a particularly attractive arrangement in credit unions that carry insurance on both loans outstanding and member share-accounts. Lower rates of interest are often available for this type of loan and your share account continues to draw interest.

## How Your Credit Union Benefits You and Your Community

**L**ARGE or small, your rural credit union is a valuable tool for mobilizing local funds for use

in the rural community and as a help for you personally. It provides a common meeting place for

the credit needs and savings of you and your fellow members, serving all on a sound, businesslike basis. Through its group activities and service programs, it makes a meaningful contribution to the life and spirit of the community and to you as a member of the community.

## Community

Rural credit unions are closely associated with other community organizations. They are often sponsored by cooperatives, general farm organizations, and rural churches. These sponsoring organizations and other groups such as 4-H Clubs and home demonstration groups are eligible for credit union membership.

In California, 37 Grange locals have sponsored rural credit unions to serve their membership. In Indiana, 33 county farm bureau cooperatives have sponsored rural credit unions. In Tennessee, employees of at least four rural electric cooperatives have organized credit unions and some think the field of credit union membership should be extended to all cooperative members. Cooperatives and farm organizations have sponsored about 360 of the 670 active rural credit unions in the United States.

In Hereford, Tex., a community credit union had 3,927 members, \$2.8 million in savings, \$3.1 million in assets, and \$1.6 million in loans outstanding as of December 31, 1964. It returned to members \$137,000 in share dividends and

patronage refunds on interest paid for the year.

The Creek Farmers Federal Credit Union in Bristow, Okla., serves a rural Negro group. In 1960 a tornado struck the area causing loss of life and property. While others had to seek help from various relief agencies, the members of this credit union were able to finance repairs and reconstruction of tornado damages from their own finance association.

## Members

Your rural credit union helps you to help your self in various ways. Its real value accrues from the combination of its many services.

Full ownership, control, and use are vested in local people. You and your neighbors operate your own finance organization and, through it, mobilize local financial resources for local benefit.

You, as an active credit union member, are a better manager of your personal financial affairs. You develop the habit of saving systematically. You assure yourself of a ready source of sound credit based on your personal needs and available on a nonprofit basis.

You also increase your income through dividends paid on your credit union savings and patronage refunds paid on interest charges. As your credit union helps you improve your own financial position, it places you in a better position to meet the demands and expenses of modern living.

## How Your Credit Union Gets Organized

**T**HE first and foremost requirement for forming a credit union is a group of interested people. Seven or more individuals

may apply for a charter but normally groups of less than 100 potential members are not encouraged to organize and operate a credit

union, since such small groups seldom generate enough funds to be successful.

You can obtain assistance and detailed information on how to start a rural credit union from several sources. Frequently, a local credit union already operating in your area can help you get started.

Your State credit union league's main purpose is to help organize and serve local credit unions. The league will send you literature and films explaining the credit union program. It can also send a fieldman to meet with you and discuss the subject in detail.

The league fieldman can assist you in the technical details of obtaining your credit union charter. He can also help you with your first membership meeting; electing officers, directors, and committees; set-

ting up your record system; and other necessary procedures.

The address of your State league can be provided by CUNA International, Inc., Post Office Box 431, Madison, Wis., 53701.

The Bureau of Federal Credit Unions, U.S. Department of Health, Education, and Welfare, Washington, D.C., 20201, also provides similar assistance to eligible groups interested in organizing a credit union. The Bureau has examiners stationed in most principal cities throughout the country who are available to assist rural as well as urban groups.

Farmer Cooperative Service, U.S. Department of Agriculture, Washington, D.C., 20250, has a number of publications providing general information on organizing and using rural credit unions.

Rural credit union loans help farmers finance farm equipment purchases.



## Other Publications Available

Using Your Wool Co-op, Educational Circular 2.

Using Your Livestock Co-op, Educational Circular 4.

Financing Farmer Cooperatives, Educational Circular 5.

Using Your Fruit and Vegetable Co-op, Educational Circular 7.

Using Your Co-op Elevator, Educational Circular 8.

Using Your Poultry and Egg Co-op, Educational Circular 9.

Sizing Up Your Cooperative, Educational Circular 11.

Farmer Cooperatives in Our Community, Educational Circular 12.

Three Principles of Agricultural Cooperation, Educational Circular 13.

Using Your Co-op Cotton Gin, Educational Circular 15.

Managing Farmer Cooperatives, Educational Circular 17.

*A copy of each of these publications may be obtained upon request while a supply is available from the—*

**FARMER COOPERATIVE SERVICE  
U.S. DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250**